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Cost of Transporting Arms To Egypt Probed by Justice

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The Justice Department is conducting a diplomatically sensitive investigation into the costs of transporting millions of dollars worth of military equipment sold to Egypt under an agreement reached after the signing of the 1979 peace treaty between Egypt and Israel.

The investigation involves \$51 million in bills submitted to Egypt by the Egyptian-American Transport and Service Co. (EATSCo), the company that holds the exclusive contract for arranging the shipment to Egypt of the more than \$3 billion in sophisticated electronics gear, artillery pieces, tanks, and other military equipment that the United States has agreed to sell that country.

EATSCo, which is based in Falls Church, was founded in 1979 by Hussein K. Salem, who U.S. intelligence sources say is a former Egyptian military intelligence offi-

cial, and Thomas S. Clines, a former CIA official, specifically for the purpose of handling these arms shipments to Egypt. The contract was awarded by Egypt after negotiations handled by high-level Egyptian officials. It was reviewed and accepted by Pentagon officials.

Sources close to the investigation say that the \$51 million in bills EATSCo submitted to Egypt during the first two years of its contract appears to be unusually high for the roughly \$300 million worth of arms shipped during the time. In one instance, for example, sources close to the investigation say EATSCo submitted a bill for shipping 16 tanks to Egypt at \$47,000 a tank. That amount is nearly four times the customary charge for what industry and government sources say would be a comparable shipment to the same area.

Prosecutors are sifting through EATSCo, Pentagon and Treasury Department records related to the

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where the \$51 million went after it was collected by EATSCo and whether any of it was billed or disbursed improperly.

The investigation centers on roughly \$30 million of EATSCo's bills to Egypt that includes fees listed as owed to a middleman company that arranged for the ships to carry the equipment overseas. Prosecutors are investigating whether the use of the middleman—a practice Pentagon officials say is generally avoided in U.S.-government-funded shipping contracts—served to inflate the bills submitted by EATSCo to Egypt, and if so, who profited.

A source close to EATSCo said some of the money listed as owed to the middleman went instead to EATSCo. That source said Egyptian officials were aware of this and did not object to it, and that therefore EATSCo's procedures were proper.

Egyptian officials declined to comment on their arrangements with the company.

The investigation has been under way for about eight months, but it is still in its preliminary stages. No charges have been filed against anyone involved in the transactions.

An EATSCo spokesman said that while individual bills may appear high, federal investigators will find that such bills generally occurred when Egypt demanded especially fast delivery, which meant special and expensive chartering arrangements. Overall, he said, EATSCo's charges were competitive with other shippers.

"The customer [Egypt] is satisfied with EATSCo's performance and charges, including all profits, which are below the limits permitted by its contract," he said, adding: "EATSCo believes that at all times it has complied with applicable U.S. laws."

Salem, who now lives in Egypt, could not be reached for comment, but his attorney said that his client had done nothing improper. Clines' attorney, John Ellsworth Stein, said Clines "denies any allegation that EATSCo conducted any business in an unlawful or improper manner in its dealings with Egypt or the United States."

EATSCo sources said Salem bought Clines' share in the company last winter, and that Clines is no longer connected with EATSCo.

Pentagon sources say the Defense Security Assistance Agency began looking into EATSCo's billings late last year, after S. Thomas Romeo, an official of the federal Maritime Administration, brought to DSAA four EATSCo bills that the sources say reflected shipping costs that were higher than the rates actually charged by the ocean lines that handled the cargo.

Several months later, the Justice Department entered the picture when prosecutors investigating the activities of former CIA agent Edwin Wilson received allegations that Wilson, now in federal custody and charged with supplying explosives and terrorist training for Libyan ruler Muammar Qaddafi, may have been involved in arranging for shipment of military equipment to Egypt and may have had an option to invest in EATSCo through other companies owned by Clines.

Clines' lawyer said Wilson had never had any interest in EATSCo. Wilson's lawyer, John A. Keats, declined comment on whether Wilson had ever had any interest in the company.

After receiving the allegations about Wilson, federal prosecutors took over the initial DSAA investigation. Sources close to the inquiry say it will be several months before prosecutors will be able to determine precisely what irregularities, if any, occurred in the handling of the shipments and whether any charges should be brought.

In addition to trying to trace the disposition of EATSCo's funds, investigators are looking into the circumstances under which the company received the contract.

Sources close to the investigation said there are no allegations of wrongdoing by Egyptian officials.

Several Egyptian officials have been interviewed about the matter, and a State Department source said the Egyptian government has privately

Egyptian officials in Washington declined to comment. One Egyptian official said privately that his government had already conducted two investigations of the officials who were said to have played some role in the negotiations over EATSCo's contract, including Kamal Hassan Ali, then defense minister and now foreign minister of Egypt; Gen. Mohammad Abu Ghazala, then Egypt's military attache here and now defense minister, and Gen. Mounir Sabet, chief of military procurement and the brother-in-law of President Mohamed Hosni Mubarak.

The Egyptian government has concluded that nothing improper occurred, that official said, and is satisfied with EATSCo's performance in handling the arms shipments.

U.S. intelligence community sources say Salem and Hassan Ali have been close friends since Salem served under Hassan Ali in Egyptian military intelligence.

The Egyptian official declined to discuss Salem's background other than to say he was never a government official or close friend of Hassan Ali. Salem has previously denied ever serving as an intelligence official.

In response to a reporter's questions, the Egyptian official termed "ridiculous" the allegations that Wilson may have had any connection to EATSCo or the arms shipments. The question of Wilson's role is a sensitive one for Egypt, because of Wilson's known association with Libya, Egypt's regional archenemy.

The official added that although his government is cooperating fully with the U.S. investigation, it was offended by continuing Justice Department inquiries.

The operating arrangements for the arms sale to Egypt are unusual. Egypt, unlike any other country now buying U.S. arms, according to Pentagon officials, is allowed routinely to use U.S. loan and grant funds to pay the cost of transporting the arms as well as the cost of buying them.

Other countries may use the U.S. funds only for arms purchases and are responsible for their own transportation costs. Pentagon officials said the unique arrangement in this case grew out of President Carter's personal guarantee to the late Egyptian President Anwar Sadat that the arms would be shipped expeditiously. To ensure that the financially strapped Egyptians would have adequate funding for the transportation, Pentagon officials said, the use of U.S. funds for that purpose was approved.

After EATSCo received the contract, U.S. officials agreed to set up an account, initially containing \$13.5 million, on which EATSCo could draw to pay its operating costs. This arrangement, which Pentagon officials say is unique, also grew out of a desire to ensure that funds would be available for a smooth transfer of the military equipment.

EATSCo drew funds from that account to pay its bills, then submitted vouchers to Egypt showing how much it had spent. Those vouchers were approved by Egypt, then forwarded to the Pentagon. As soon as the vouchers totaled \$7.5 million, a level set in advance by arrangement with the Pentagon, Egypt asked the U.S. to deposit \$7.5 million more in the account. A total of five such additional deposits were made during the first two years of the contract.

Pentagon officials say that EATSCo made several changes in its operations in response to concerns expressed by DSAA after that agency's investigation began. Those changes included removing the middleman company and altering EATSCo's billing procedures to identify more clearly on the invoices what charges and fees EATSCo receives.

In addition, the Pentagon stopped the practice of replenishing the account in \$7.5 million increments. EATSCo's U.S. account is now replenished in the exact amount of bills it submits.

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